



**Massachusetts Bay
Transportation Authority**

CA Report to FMCB

FY18 Operating Expense Update

February 5, 2018



Executive Summary: Operating Expense Update

Operating Expense: Operating expense growth is flat (<1% excluding debt service) compared to FY17 YTD

Reminder: FY00-FY15 average annual expense growth was 5%

- FY16 Operating expenses declined by 0.3%
- FY17 Operating expenses declined by 0.4%

KEY DRIVERS TO DATE

- Favorable negotiation and rebidding of existing contracts have resulted in significant cost savings
- Improved procurement process (vouchers to purchase orders) have controlled materials & supplies spend authority wide
- Operating workforce streamlined; critical hires made to improve productivity
- Favorable union CBA terms YTD
- Debt service increased with higher rates and new issuance, but should remain steady through the balance of the year



FMCB goal:

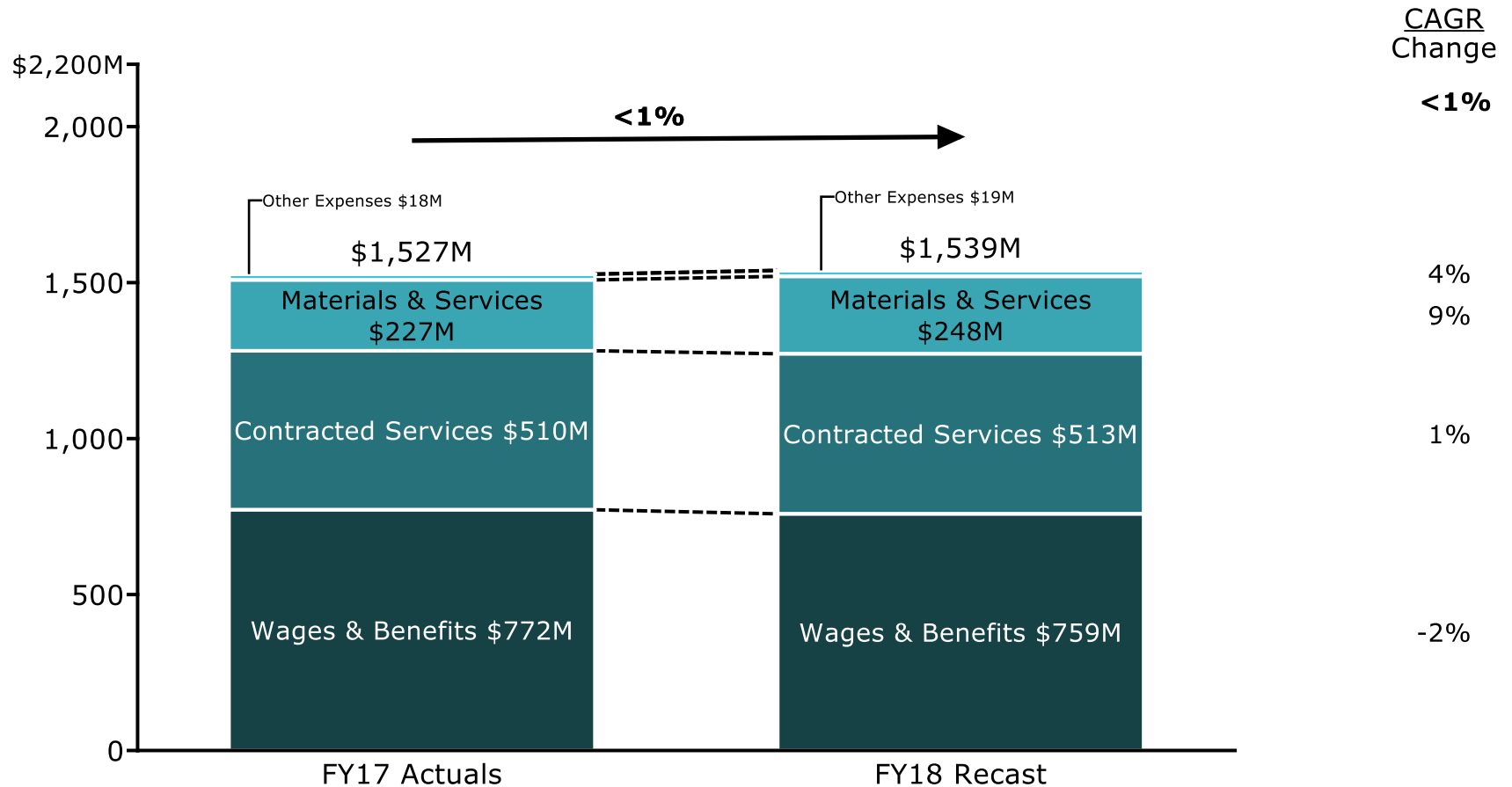
Deliver a balanced MBTA operating budget

Under Section 203 of Chapter 46 of the Acts of 2015, the FMCB may:

"Establish 1- and 5-year operating budgets, beginning in fiscal year 2017, which are balanced primarily through a combination of internal cost controls and increased own-source revenues"



Total Operating Expenses (Less Debt Service): FY17 Actual Expenses vs FY18 Recast



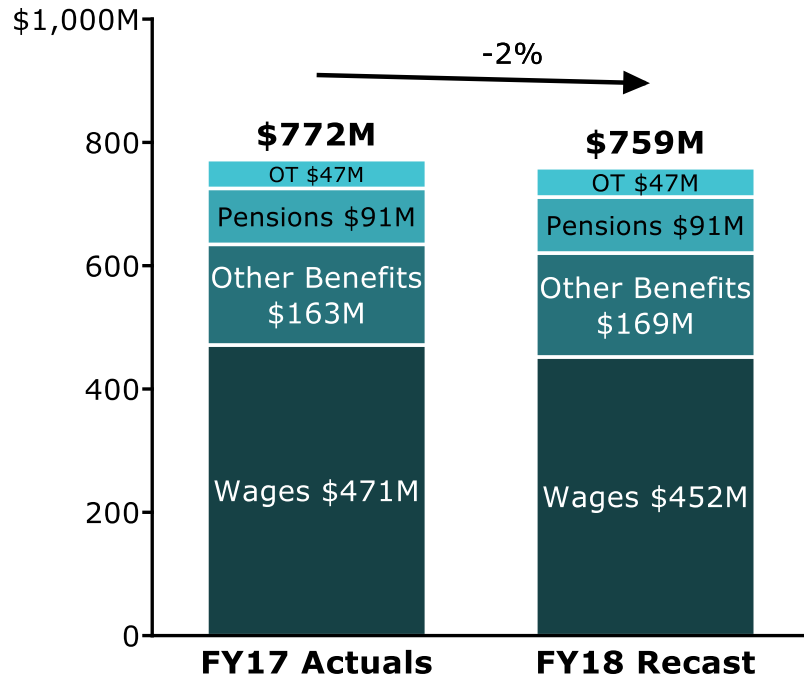


Wages & Benefits:

Active management of headcount & favorable new union agreements

Regular Wages, OT, Pensions & Other Fringe Benefits

Wages & Benefits
(FY17 - FY18R, \$M)



KEY DRIVERS

Key Drivers:

CBA's

- L589 & L264: 0% Annual Wage Increases
- Renegotiated L589 wage rates and work rules have been favorable including no new positions & enforced OT/attendance policies

Streamlined Workforce

- Operating headcount down 3% relative to budget YTD
- Vacancies continue to remain a challenge but partnership with TPA for leave management programs (FMLA/ADA) have seen positive results

Pension

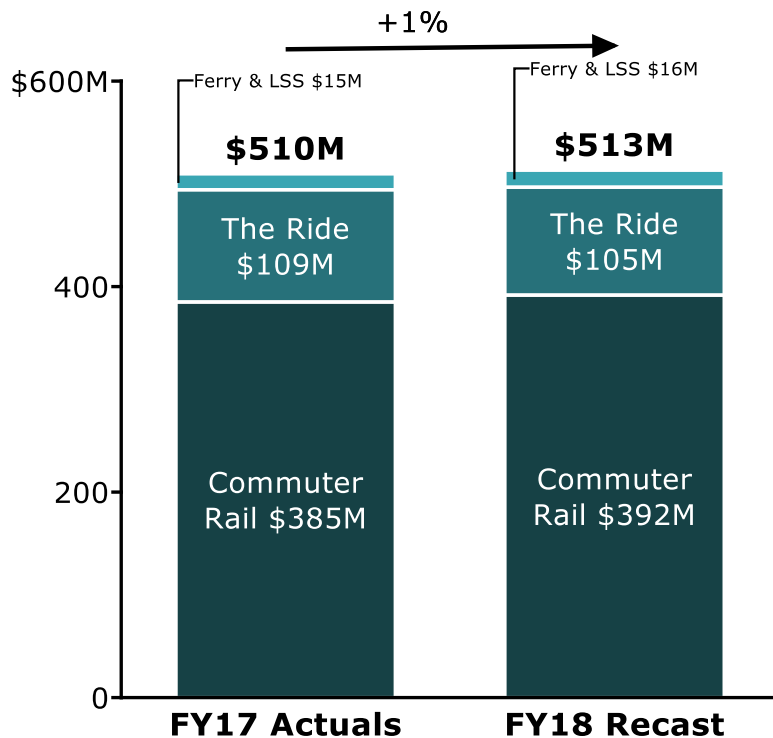
- While pension contribution has went up, lower headcount & wages have resulted in flat total expense



Contracted Services: 1% expense increase from FY17 actuals

Commuter Rail, The Ride, Ferry & Other LSS

Contracted Services
(FY17 - FY18R, \$M)



KEY DRIVERS

Key Drivers:

Ride

- TRAC implementation has been delayed, spending slower than expected YTD; re-procurement began in Jan18
- Ridership was down 7% year-over-year in Q1 FY18; as service improves for TRAC, could see a slight recovery and associated increased costs
- Service pilots (Uber/Lyft) should prove favorable

Commuter Rail

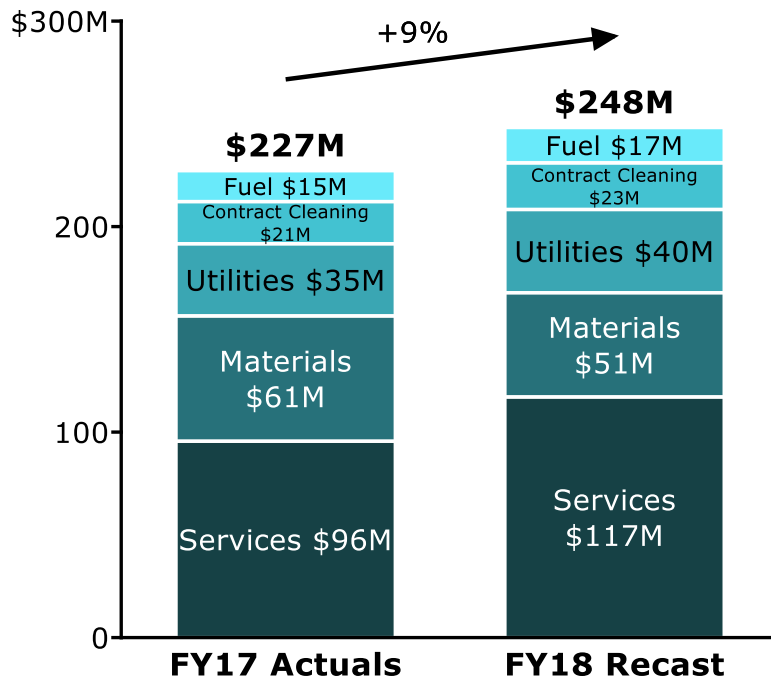
- Contractual increase in fixed price; additional annualized scope changes



Materials & Services: 9% above FY17 actuals

Materials, Services, Fuel, Utilities & Contract Cleaning

Materials & Services
(FY17 - FY18R, \$M)



KEY DRIVERS

Key Drivers:

- Diesel and natural gas prices are higher in FY18 than FY17 due to macroeconomic events and supply/demand imbalances
- Nearly 60% of Massachusetts electricity is generated with natural gas, so utilities prices increased as well
- Cleaning contract stepped up in price with the new fiscal year



Debt Service:

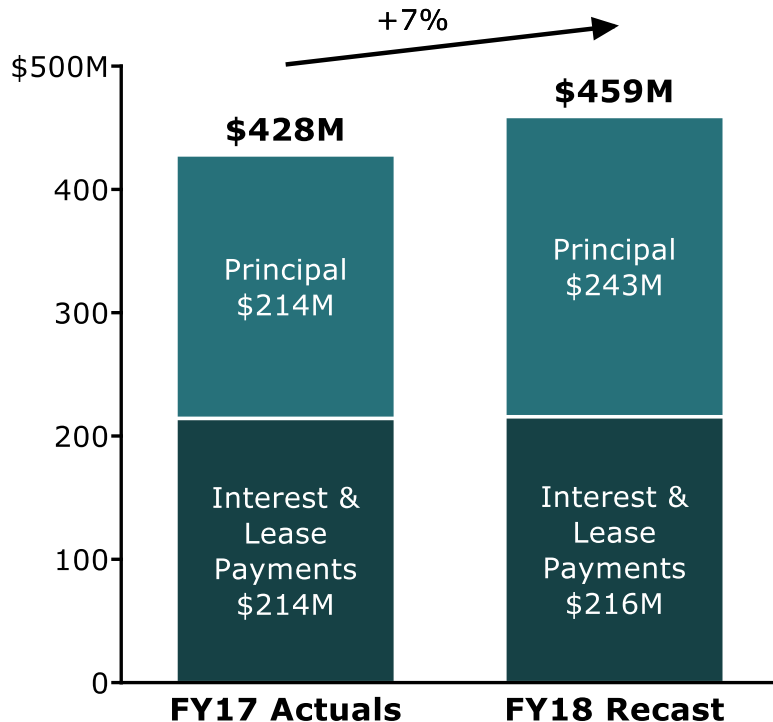
Increase is consistent with FMCB approved debt policy

Principal, Interest & Lease Payments

KEY DRIVERS

Debt Service
(FY17 - FY18R, \$M)

Key Drivers:



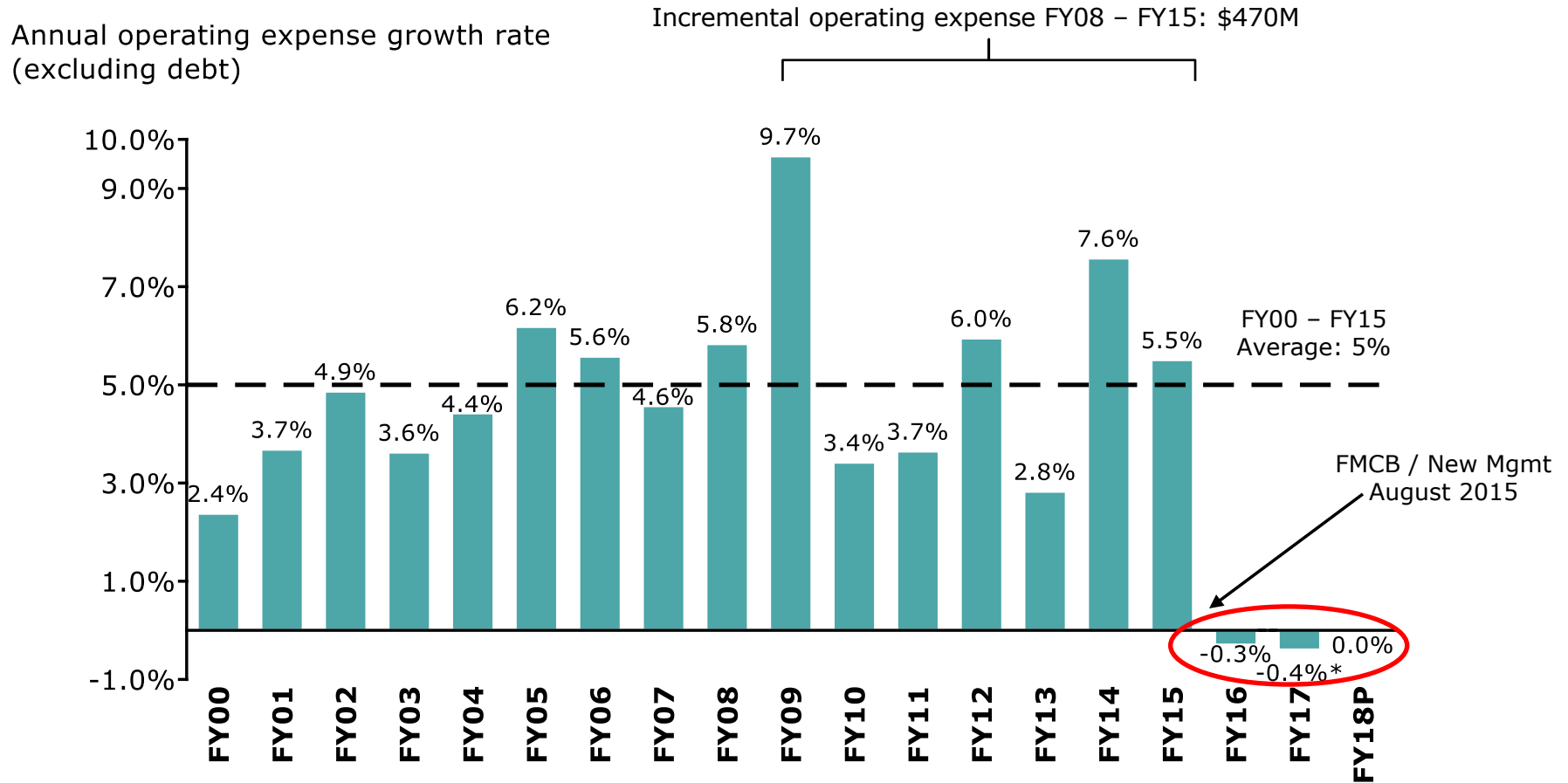
- MBTA scheduled to pay down more principal in FY18 than FY17 per existing bond indentures
- Practice consistent with debt policy principle of servicing obligations when due rather than extending them
- MBTA prepaid lease obligations in FY18
- Interest rates on variable rate debt have increased YTD



Appendix



Since FMCB, operating expense growth lowest in 15 years



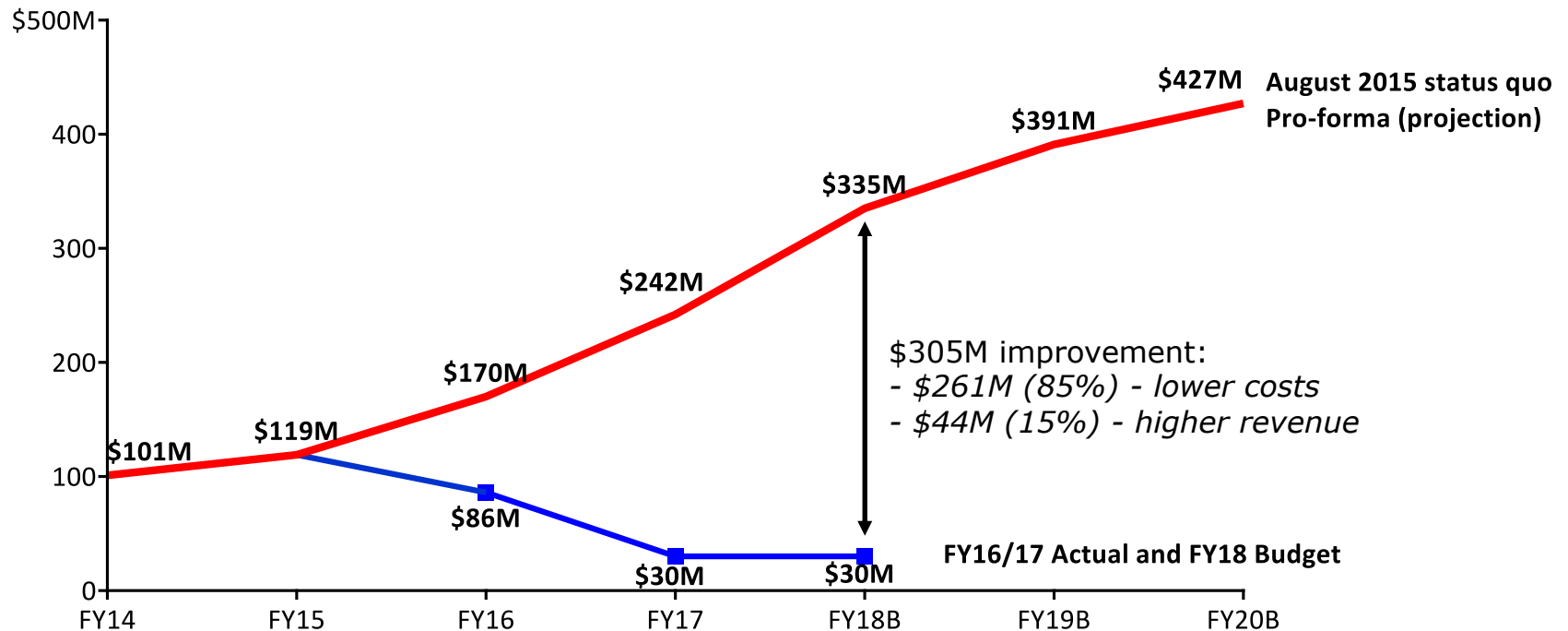
Note: For comparative purposes, FY17 core operating expense growth excludes capital employees transferred in FY17.

Draft for Discussion & Policy Purposes Only



FY18 budgeted operating deficit forecast reduced \$305M

Structural deficit



Source: MBTA management in process of recasting FY18-FY20.

Operating Deficit does not include additional state assistance of \$155M in FY16 or \$187M FY17 (forecast)